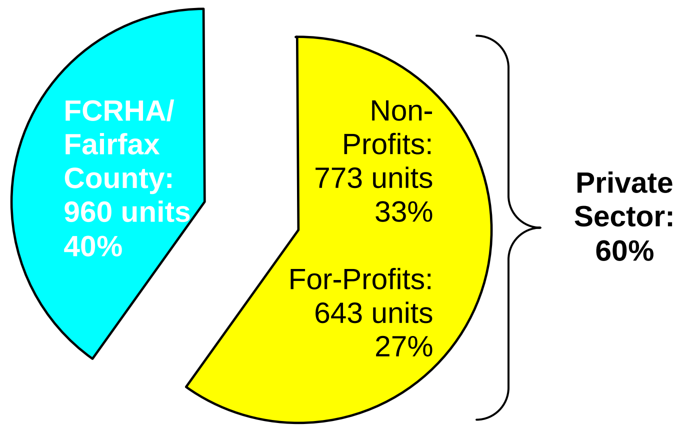
The Penny for Affordable Housing Fund

FY 2009 REPORT OF THE SPECIAL SUBCOMMITTEE OF THE
FAIRFAX COUNTY AFFORDABLE HOUSING ADVISORY COMMITTEE
SEPTEMBER 25, 2009

EXECUTIVE SUMMARY

Units Preserved Through June 2009; By Sector – 2,376 Total Units



About the Penny Fund: In 2004, the Board of Supervisors made an unprecedented commitment to affordable housing as a community value. The Board announced its Affordable Housing Preservation Initiative in April 2004, with a goal of preserving 1000 units by the end of 2007. The Board also designated the value of one penny of the real estate tax rate for affordable housing. From FY 2006 through FY 2009, the "Penny for Affordable Housing Fund" produced $85.3 million for the preservation of affordable housing in Fairfax County. The FY 2010 Adopted Budget includes $10.2 million for the Penny Fund, a 50 percent reduction from previous years. The Penny Fund has been consistently successful in meeting *and exceeding* the principles and priorities set forth for it by the Board of Supervisors, and the Affordable Housing Advisory Committee urges the Board to fully fund the Penny Fund in FY 2011. This document is a brief review of the status of the Penny Fund as of the end of FY 2009.

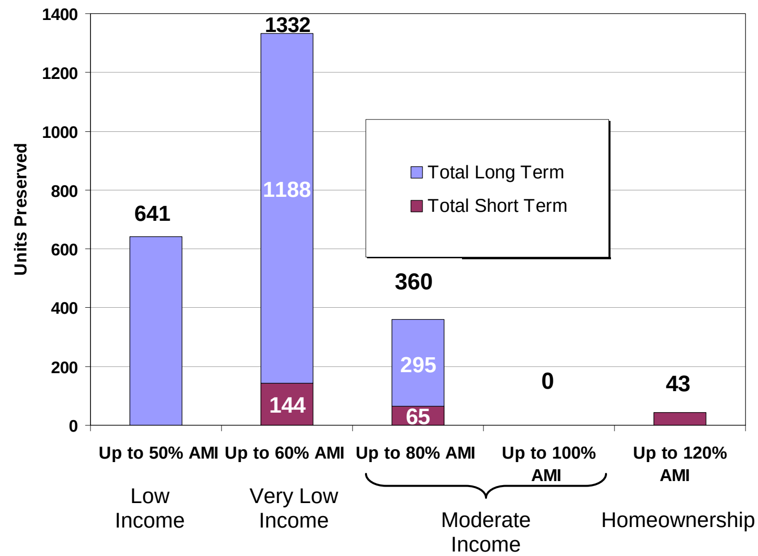
Exceeding Expectations, Having an Impact: From April 2004 through June 2009, a total of 2,376 affordable housing units were preserved in Fairfax County; this is more than double the Board's original goal of preserving 1,000 units. Between 2002 and 2008, a total of 9,305 rental housing units affordable at 70 percent of the Area Median Income (AMI) and below have been lost to rising rents, redevelopment, and condominium conversions. *Without the Penny Fund, the loss would have been closer to 11,500 units.*

Making Public/Private Partnerships Work: Of the 2,376 units preserved to date, a total of 1,809 units were preserved in transactions using the Penny Fund, including 908 were preserved through acquisitions by non-profit and for-profit organizations. In total, the private sector has preserved 1,416 units, or 60 percent of the 2,376 units preserved.

Serving Low-Income Households: A total of 83% of the 2,376 preserved units are affordable to low income households (60% AMI and below), including 27% which are affordable to very low income households (50% AMI and below).

A Highly Utilized Resource that Leverages Non-county Dollars: The key to the Penny Fund's success is its ability to leverage and attract the investment of non-county dollars in affordable housing. The Board of Supervisors specifically directed that Penny Fund investments be leveraged by a ratio of at least 3:1 (three non-county dollars for every one county dollar expended). In each of the first four years of the Penny Fund (FY 2006 – FY 2009), the 3:1 leveraging goal has been <u>exceeded</u>.

Preservation Initiative:
Affordability of Preserved Units – *All Funding Sources*
April 2004 through FY 2009



A <u>Local</u> Resource for <u>Local</u> Priorities: The use of the Penny Fund in FY 2009 demonstrates that it is a highly flexible resource that can be directed to meet local priorities as they emerge over time. FY 2009 marked the first time the Board of Supervisors used the Penny Fund for new construction and first-time homebuyer financing. The Penny Fund provided $6.3 million for the construction of 90 units of affordable active senior living at Olley Glen (Braddock District). The Board also took advantage of the flexibility of the Penny Fund to address the foreclosure crisis, providing a total of $1,800,000 to support the "Silver Lining Initiative", which provides below-market second trusts to income-qualified Fairfax County first-time homebuyers purchasing bank-owned foreclosed homes.

Rigorous Oversight and Transparency: When the Penny Fund was created in 2005, the Board of Supervisors also established the Affordable Housing Advisory Committee to oversee its use. The Advisory Committee meets on a quarterly basis and receives a progress report on the use of the Penny Fund. The Advisory Committee convenes a special subcommittee to review the use of the Fund each fiscal year, and provides an annual report to the Board of Supervisors. This document constitutes the report of the special subcommittee for FY 2009.

FY 2010 Outlook: The special subcommittee notes that the Board reduced the Penny Fund by 50 percent for FY 2010. While recognizing that this decision was driven by the many fiscal challenges now faced by the Board, the special subcommittee anticipates that the reduction of the Penny Fund will significantly hamper the county's ability to address its current and future needs for affordable housing. The special subcommittee urges that full funding be restored in FY 2011.

REPORT OF THE SPECIAL SUBCOMMITTEE OF THE FAIRFAX COUNTY AFFORDABLE HOUSING ADVISORY COMMITTEE
THE PENNY FOR AFFORDABLE HOUSING FUND
PROGRESS REPORT - YEAR FOUR – FY 2009
September 25, 2009

Background: In May 2005, the Fairfax County Board of Supervisors appointed the Affordable Housing Advisory Committee to assist in prioritizing and monitoring affordable housing initiatives through the Penny for Affordable Housing Fund. The Penny Fund generated a total of $17.9 million for affordable housing in FY 2006, $21.6 million in FY 2007, $22.7 million in FY 2008, $22.8 million in FY 2009 and $10.27 million in FY 2010. A special subcommittee of the Advisory Committee was formed in June 2006 to, among other things, review the progress of the Penny Fund directly in relation to the principles, priorities and guidelines recommended by the Advisory Committee and endorsed by the Board of Supervisors on November 21, 2005 (see Attachment 1). The Advisory Committee adopted progress reports for Fiscal Years 2006, 2007 and 2008; this document constitutes the report for FY 2009.

Overview: The special subcommittee of the Advisory Committee finds that the expectations set forth by the Board in its November 21, 2005 Penny Fund Overriding and Guiding Principles continued to be met during FY 2009. This progress report includes a point-by-point assessment of the progress made by the Fairfax County Redevelopment and Housing Authority (FCRHA) and the Department of Housing and Community Development (HCD) in view of the Board's overriding and guiding principles and priorities in FY 2009. Each use of the Penny Fund in FY 2009 complied with the Board's principles and priorities. However, FY 2009 was a unique and important year for the Penny Fund in a number of ways:

1) New Construction: In FY 2009, the Penny Fund was used to provide $6.3 million for the construction of 90 units of affordable active senior living at Olley Glen (Braddock District). This marked the first time the Penny Fund was used for new construction. This project also demonstrates the flexibility that the Fund, as a local resource, gives the Board to invest in the priorities it deems to be the most pressing, unfettered by requirements imposed by funding sources like the federal government.
2) Responding to Foreclosure Crisis: The Board provided a total of $1,800,000 from the FY 2009 Penny Fund allocation to support the "Silver Lining Initiative", which provides below-market second trusts to income-qualified Fairfax County first-time homebuyers purchasing bank-owned foreclosed homes. Again demonstrating its flexibility, this was the first time the Penny Fund has been used to provide direct financing to qualified individual homebuyers.
3) Leveraging: In FY 2006 and FY 2008, the Penny Fund was leveraged in order to support the critical purchase and preservation of Crescent Apartments (Hunter Mill District) and Wedgewood Apartments (Braddock District). Using the Penny Fund to support debt service, the county was able to leverage private financing and still keep rents affordable. A total of $7,393,473 was expended from the FY

2009 Penny Fund revised budget for the financing and debt service on Wedgewood and Crescent. Much of the balance of the FY 2009 Penny Fund allocation was reserved for debt service and permanent financing of these projects in FY 2010. This, coupled with Olley Glen and the Silver Lining Initiative, significantly reduced the number of additional units preserved in FY 2009 as compared to prior years.

The special subcommittee also notes that the Board reduced the Penny Fund by 50 percent for FY 2010. This action will significantly hamper the county's ability to address its current and future needs for affordable housing.

Preservation Initiative Status

Through June 30, 2009, a total of 2,376 units of affordable housing have been preserved since the inception of the Board's Affordable Housing Preservation Initiative in April 2004. Of those 2,376 units, 1,809 were preserved in transactions involving the Penny for Affordable Housing Fund. A total of 1,701 of the 1,809 units preserved in Penny Fund transactions are affordable rental housing; the remaining 108 units were affordable homeownership opportunities created as part of the preservation of a portion of the Madison Ridge Apartments (Sully District) in FY 2006.

Overriding Principles

- ***Overriding Principle 1:*** *Preservation of existing affordable housing is the highest priority.*

  Progress/findings: A total of four additional units of affordable housing were preserved using the Penny Fund in FY 2009. These four units were new Affordable Dwelling Units (ADUs) at Northampton (Lee District) purchased by the FCRHA for a total of $581,566, including $214,000 from the Penny Fund. The units at Northampton are rented under the Fairfax County Rental Program (FCRP), and are affordable to households earning up to 50 percent of the Area Median Income (AMI).

  In addition to the four units at Northampton, a total of 148 units were preserved in FY 2009 using sources other than the Penny Fund. In total, 152 units of affordable housing were preserved in FY 2009 using all funding sources, a significant decrease from previous years due to the following:

  1. The majority of the FY 2009 Penny Fund was expended or otherwise obligated to prior years preservation projects, including Crescent and Wedgewood; and
  2. The Board also committed FY 2009 Penny Fund resources to the construction of the Olley Glen active senior development and the "Silver Lining" foreclosure initiative.

  Status of Wedgewood Permanent Financing: The permanent financing of the Wedgewood Apartments closed on August 20, 2009.

Background: Fairfax County purchased the Wedgewood Apartment complex on November 28, 2007 for $107,500,000. This 672-unit, garden-style multifamily rental community located on Little River Turnpike (Route 236), just inside the Capital Beltway (Route 495) in the Annandale section of the Braddock District. The county entered into an agreement with the FCRHA to operate the property. The FCRHA has hired a private property management firm to handle day-to-day management. Interim financing for the purchase of Wedgewood was provided through the FCRHA issuance of Bond Anticipation Notes (BANs) in the amount of $105,485,000, along with $5,000,000 from the Penny Fund. The original BANs matured on October 9, 2008, and were refinanced by the FCRHA, which issued new BANs in the amount of $104,105,000 percent. The new BANs are due and payable on October 1, 2009.

Activity in FY 2009: At the June 15, 2009 meeting of the Board Housing Committee, staff recommended a permanent financing plan for Wedgewood which called for the issuance of FCHRA Revenue Bonds (Government Bonds), with the debt service on these bonds being paid by the county. This recommendation was based on the following factors:

1. *Potential Reinvestment of Project Income:* A key element of this financing structure was the return to the Penny Fund of approximately $4 million per year from Wedgewood project income. This income could potentially be reinvested in projects in the pipeline, future affordable housing opportunities, including additional preservation projects, new construction, and a wide variety of other affordable housing-related options. This potential for reinvesting project income demonstrates the flexibility that the Penny Fund, as a local resource, gives the Board in addressing local affordable housing priorities.

2. *Flexibility in Financing:* This type of bond financing gives the county the option to refinance or restructure the project in the future. This option also would not require any rehabilitation of the project.

3. *Condition of the Bond Market:* The FCRHA has financed housing transactions similar Wedgewood with Private Activity Bonds, tax credits and other sources of financing, and would have preferred to refinance the Wedgewood BANs with these financing instruments. However, over the past year, the bond market for fixed interest rate housing bonds, in particular, has gone through wide fluctuations with the tax-exempt yields rising above the taxable yields. Additionally, the Low-Income Housing Tax Credit market has been extremely volatile, with the pricing per tax credit dollar over the past year in areas like Fairfax County plunging from $0.95 per tax credit dollar to $0.75, thereby creating large funding gaps in transactions.

Board Action on Permanent Financing Recommendation: On July 13, 2009, the Board of Supervisors formally endorsed the staff's recommendation for the permanent financing of Wedgewood (Action – 4). As a part of this action, the Board requested that the FCRHA issue bonds in an amount not to exceed $100,000,000 to provide permanent financing and pay off the principal amount of the outstanding BANs. The Board's action on the permanent financing for Wedgewood anticipated using approximately $93,000,000 in financing from Government Bonds issued by the

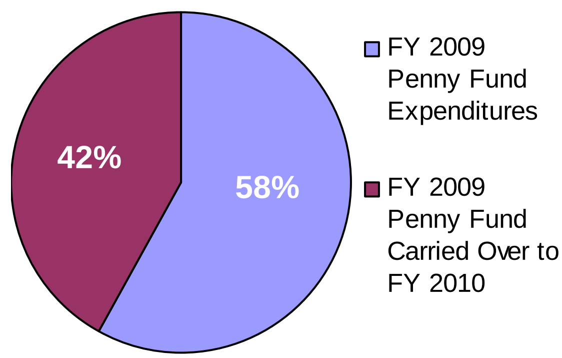
FCRHA, along with $10.9 million from the Penny Fund, $1.9 million from the Housing Trust Fund, and income from operations of the project.

Closing of Permanent Financing: Permanent financing for Wedgewood closed on August 20, 2009. On August 4, 2009, the Government Bonds for Wedgewood were successfully sold through a competitive bid process. The FCRHA sold thirty-year bonds for Affordable Housing Acquisition Series 2009 in the amount of $94.95 million to Merrill Lynch & Company at an interest rate of 4.646 percent. The $104,105,000 BANs will be paid off on October 1, 2009 from the proceeds of the bond sale, in combination with $10,826,070 from the FY 2009 and FY 2010 Penny Fund allocations, and $1,900,000 from the Housing Trust Fund.

- ***Overriding Principle 2:*** *The Fund will be fully spent or specifically obligated within the fiscal year in which it is appropriated.*

Progress/findings: The total FY 2009 revised budget for the Penny Fund – which includes funds carried over from prior years and a contribution of $900,000 from the operations of the Crescent Apartments – was $25,213,397. Of that total, 58 percent of the funds were expended, and 0.9 percent was encumbered by Board action. Of the remaining 41.1 percent, the majority is reserved for ongoing preservation projects or unspent administrative funds, both of which will carry over to FY 2010. It should be noted that a total of $7,393,473 was expended from the FY 2009 Penny Fund revised budget allocation for the financing on prior year preservation transactions or debt service, including Crescent ($3,895,456) and Wedgewood ($3,498,017). On July 13, 2009, the Board reallocated a total of $9,835,000 remaining from the FY 2009 Penny Fund for the permanent financing of Wedgewood (Action – 4).

Revised FY 2009 Budget:
Penny for Affordable Housing Fund
FY 2009 Year-End Expenditures



Note: As of August 2009, 97.8% of the FY 2009 Penny Fund revised budget was expended or obligated.

- ***Overriding Principle 3:*** *The Fund will be opportunity-driven.*

Progress/findings: In prior years, the special subcommittee used this section of its annual report to discuss how the Penny Fund was deployed in preservation opportunities emerging in the market. However, as noted above, FY 2009 marked the first year where the majority of the funds were expended on or dedicated to financing prior years preservation projects. The special subcommittee finds that the use of the Penny Fund in FY 2009 on the construction of Olley Glen and on the

"Silver Lining" Foreclosure Initiative demonstrate the Penny Fund's ability to respond to other kinds of emerging opportunities and priorities.

Olley Glen: In the case of the Olley Glen active senior development, the Penny Fund was the only affordable housing funding resource available to the Board with the flexibility to provide critical gap financing for construction. The Board committed a total of $6.3 million from the FY 2009 Penny Fund allocation to the Olley Glen project. (See also Guiding Principle 5 below.)

Silver Lining Initiative: The Board also used the Penny Fund as part of its response to the foreclosure crisis in FY 2009. On June 30, 2008, the Board approved a program designed to address foreclosures and help stabilize impacted neighborhoods, while increasing the opportunities for additional workforce housing. The program consists of three components:

1. Assistance to homeowners in distress in the form of foreclosure counseling and education;
2. Neighborhood preservation efforts aimed at helping property owners keep up their properties; and
3. Providing access to gap financing, in the form of below-market, shared equity second trusts, for first-time homebuyers to purchase foreclosed homes.

The Board allocated a total of $1.8 million from the FY 2009 Penny Fund for the gap financing component of the foreclosure program, known as the "Silver Lining Initiative". These funds were combined with existing federal HOME Investment Partnership (HOME) funds, and were further supplemented by $1.5 million from the county's allocation of federal Neighborhood Stabilization Program (NSP) funds, received under the Housing and Economic Recovery Act of 2008. For low-cost, first trust financing, the Silver Lining Initiative relies primarily on Fairfax County's allocation from the Virginia Housing Development Authority's (VHDA) Sponsoring Partnerships and Revitalizing Communities (SPARC) loan allocation.

As is HCD's general practice, staff concentrated in FY 2009 on using non-county resources first for the Silver Lining Initiative. A total of seven households purchased foreclosed properties using Silver Lining second-trusts in FY 2009, of which five used federal funding. Two second-trust gap loans totaling an expenditure of $110,304 were made under the Silver Lining Initiative using the Penny Fund. An additional 28 households purchased foreclosed properties using the VHDA SPARC first-trust financing. In total, 35 households purchased foreclosed homes via the Silver Lining Initiative in FY 2009.

Guiding Principles

- ***Guiding Principle 1:*** *The Fund will be leveraged at least 3:1.*

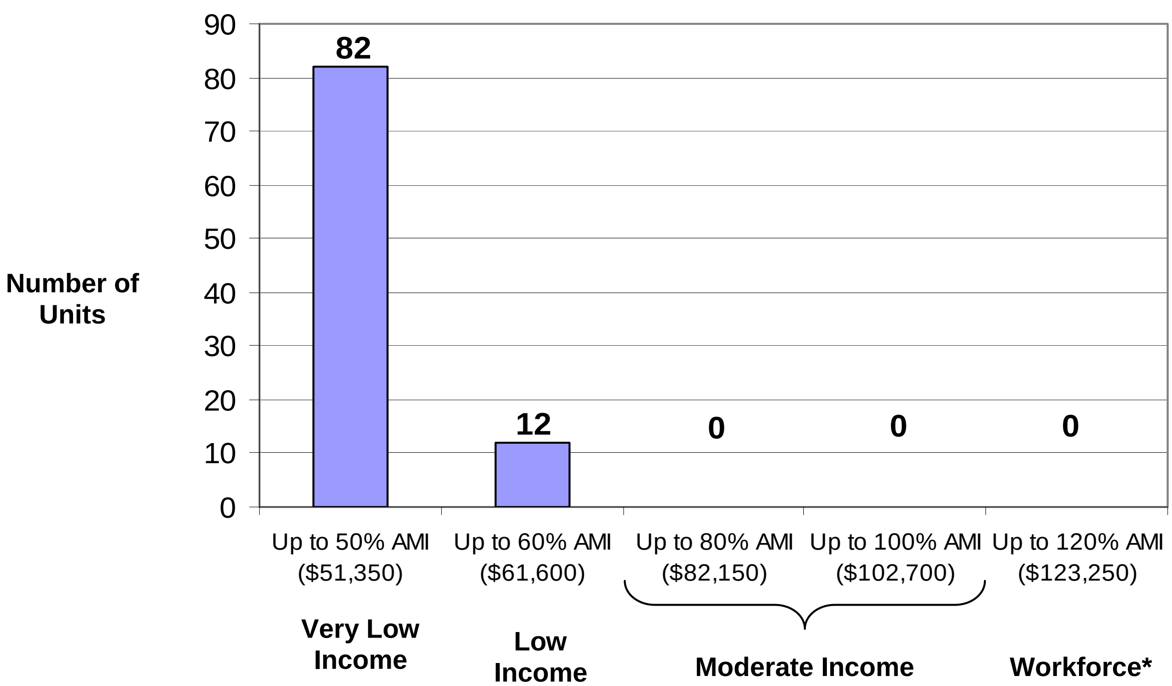
<u>*Progress/findings:*</u> The leveraging rate for all investments of the Penny Fund which closed in FY 2009 was $3.87 in non-county funds for every Penny Fund dollar invested. This included the acquisition of Northampton and the construction

financing for the Olley Glen project. The leveraging rate for the permanent financing of Wedgewood, which closed on August 20, 2009, was $8.88:$1; a total of $10,826,070 from the FY 2009 and FY 2010 Penny Fund allocations leveraged a total of $96,157,755 as a part of this action. Because of the favorable terms – including a very low interest rate – for the Wedgewood permanent financing, the FCRHA was able to leverage more private dollars than previous projects. This was thanks, in large part, to Fairfax County's outstanding bond rating and ongoing commitment to the project.

- ***Guiding Principle 2:*** *Projects can be expected to range in affordability. Projects serving a lower income may be eligible for an above-average subsidy, while those serving a higher income eligible for a lower subsidy. The affordability range will be set by the Advisory Committee.*

  Progress/findings: The affordability range set by the Advisory Committee is 0 percent to 120 percent of AMI (FY 2009: $102,700 for a family of four). As noted earlier, a total of four additional units were preserved in FY 2009 at Northampton (Lee District) using the Penny Fund; all four units are affordable to households earning up to 50 percent of AMI. The per-unit Penny Fund subsidy at Northampton was $53,500. In terms of new construction, the affordability of the 90 units under construction at Olley Glen is planned to be: 78 units affordable at 50 percent of AMI; and 12 units affordable at 60 percent of AMI. The per-unit Penny Fund subsidy at Olley Glen was $52,122. (See also Guiding Principle 5.)

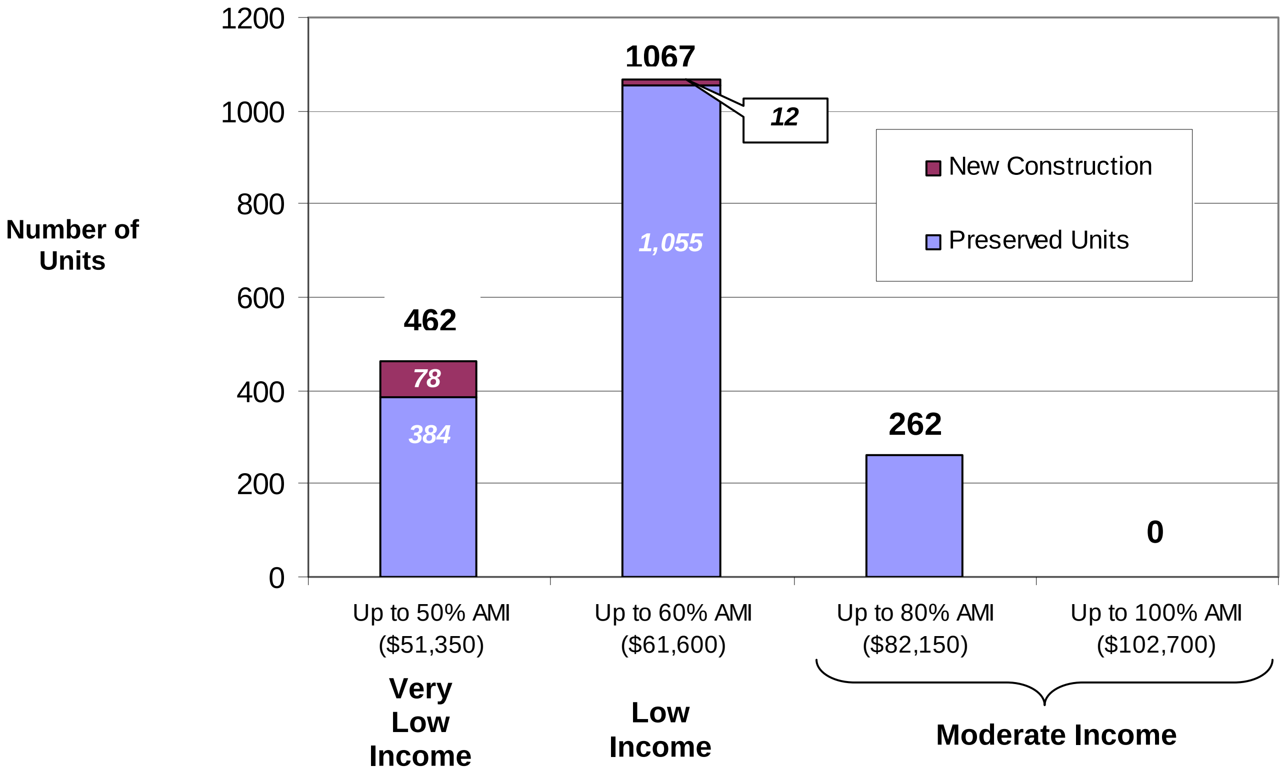
Rent Affordability of Units Preserved and Under Construction in FY 2009
By Percentage of Area Median Income (Incomes Shown for a Family of Four)
Penny for Housing Fund



*Per definition of "workforce housing" in Fairfax County Comprehensive Plan.

A total of 1,791 preservation and new construction rental units have been financed using the Penny Fund since its inception through FY 2009; the chart below demonstrates the rent affordability of those units:

Rent Affordability of Units Preserved and Under Construction through FY 2009
By Percentage of Area Median Income (Incomes Shown for a Family of Four)
Penny for Housing Fund



<u>Note:</u> As of FY 2009, all 180 units at the Crescent have rents affordable at 60 percent of AMI; in prior years, the rent affordability had been reported as 36 units affordable at 50 percent of AMI and 144 units affordable at 100 percent of AMI.

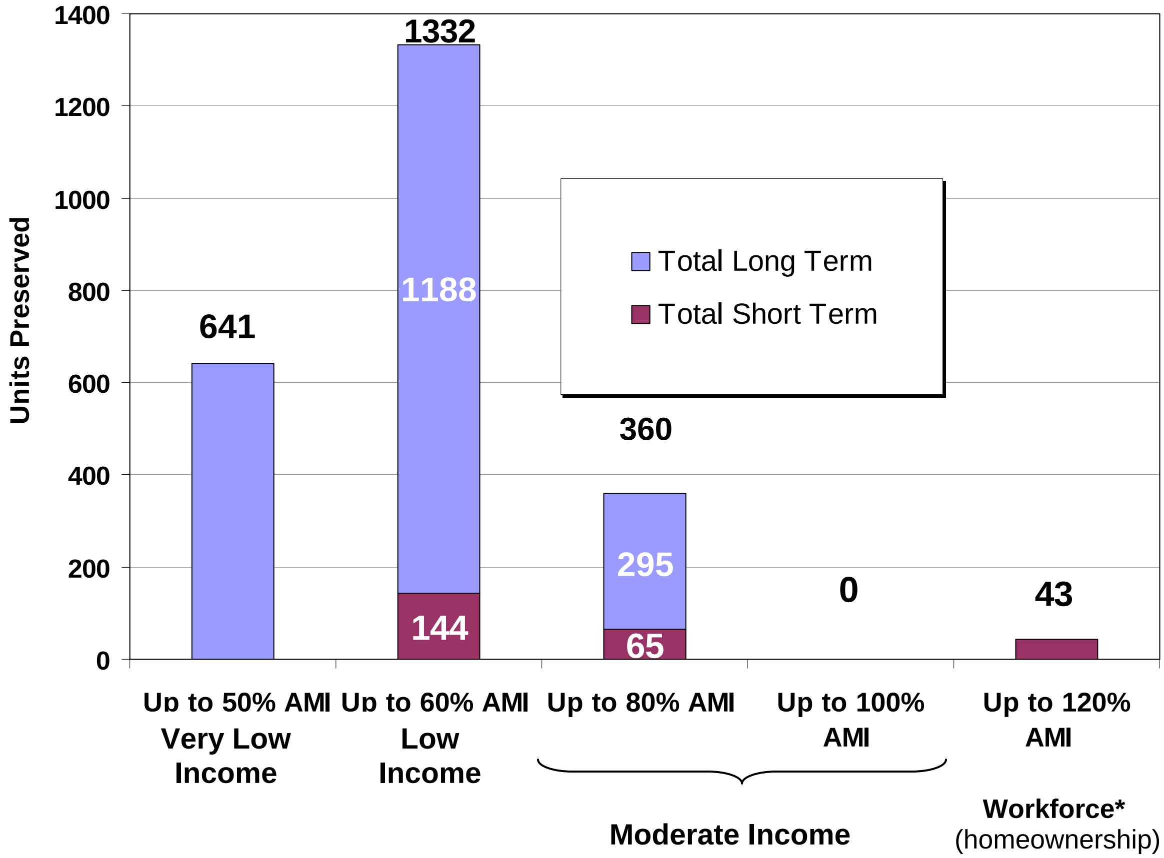
The chart above also reflects revised rent affordability for Wedgewood, as approved by the Board of Supervisors of July 13, 2009 (Action – 4):

- 10 units at 20 percent of AMI;
- 3 units at 30 percent of AMI;
- 122 units affordable at 50 percent of AMI;
- 403 units at 60 percent of AMI, and
- 134 units at 80 percent of AMI.

In addition to the 1,791 rental units preserved or under construction using the Penny Fund through FY 2009, a total of 108 additional condominium units were preserved at Madison Ridge (Sully District) in FY 2006 as condominiums offered to moderate income households earning up to 120 percent of AMI. As of August 2009, 65 of these units had been sold to households earning 80 percent of AMI and below and 23 units had been sold to households earning between 80 and 120 percent of AMI. The remaining 20 units were made available for sale to households earning up to 120 percent of AMI.

A total of 2,376 units were preserved through the Affordable Housing Preservation Initiative through the end of FY 2009. A total of 1,973 units – or about 83 percent of the total – were affordable to households earning up to 60 percent of AMI, including 641 units – about 27 percent of the total – affordable at up to 50 percent of AMI. The income ranges served by all funding sources (Penny Fund, Housing Trust Fund, HOME, Community Development Block Grant (CDBG)), for the Preservation Initiative through the end of FY 2009 are shown in the chart below:

Affordability of Units Preserved, April 2004 through FY 2009
By Percentage of Area Median Income (AMI)
All Funding Sources



*Per definition of “workforce housing” in Fairfax County Comprehensive Plan.

Note: This chart reflects adjustments to the rent affordability at Crescent and Wedgewood, as described on page 9.

- ***Guiding Principle 3:*** *All projects are expected to be feasible, sustainable, affordable, completed in a timely manner, and meet threshold standards set by the Department of Housing and Community Development.*

  Progress/findings: In addition to supporting prior year preservation projects, the Penny Fund was used by the FCRHA to acquire and preserve four units at Northampton, to fund two Silver Lining loans, and to provide financing for the construction of Olley Glen. Each use was underwritten by HCD; the acquisition of Northampton and the Silver Lining loans were completed in a timely manner. The construction of Olley Glen is underway and expected to be completed in FY 2011.

- ***Guiding Principle 4:*** *Allocations from the Fund will be spent on capital expenditures.*

  Progress/findings: The Board of Supervisors, in authorizing the Penny Fund, allowed for the use of up to 2.5 percent of the annual allocation for administrative costs. All funds expended or encumbered in FY 2009, except for that 2.5 percent set-aside, were spent on capital expenditures.

- ***Guiding Principle 5:*** *Under appropriate circumstances, the Fund may be used for new housing production.*

  Progress/findings: A total of $6,300,000 was expended from the FY 2009 Penny Fund on the construction of Olley Glen, a new 90-unit active senior development on the FCRHA's Glens at Little River senior housing campus in the Braddock District. The total development cost for the project is $24,037,998, including $17,033,859 in non-county funds, as well as $704,129 from the Housing Trust Fund and the $6,300,000 FY 2009 Penny Fund investment. The project is now under construction and is expected to be completed in FY 2011.

  The $6.3 million Penny Fund investment in Olley Glen was replaced by a portion of a $8.35 million Section 108 CDBG loan. Per the Board's action on July 13, 2009 (Action – 4), $1.6 million of the original $6.3 million Penny Fund investment in Olley Glen was repaid with a portion of the Section 108 loan and reallocated to the permanent financing of Wedgewood. A total of $2,050,000 from the loan will be used to purchase the land for Olley Glen from the FCRHA-controlled limited partnership which owns that parcel and the adjacent Braddock Glen assisted living facility. (The majority of the proceeds of this loan were used for the preservation of 128 additional affordable rental units at Strawbridge Square in the Mason District.)

- ***Guiding Principle 6:*** *Loans, deferred loans, grants and other financing approaches will be used.*

  Progress/findings: Transactions involving the Penny Fund in FY 2009 included direct purchase of units by the FCRHA, financing for FCRHA construction at Olley Glen, and two deferred second-trust loan for first-time homebuyers under the Silver Lining Initiative. It should be noted that the FCRHA is beginning to receive loan repayments from prior years' Penny Fund investments. As of August 2009, the

Sunset Park and Reston Glen projects have repaid a total of $180,740; an additional $89,142 is expected to be repaid by the Janna Lee project in calendar year 2009.

- ***Guiding Principle 7:*** *The activity, status and success of the Fund will be well communicated to the Board of Supervisors and the community.*

  Progress/findings: Activities, status and successes of the Fund are reported regularly in the on-line newsletter at www.e-ffordable.org. The newsletter is generally published bi-weekly and sent to approximately 300 "subscribers" including the Board of Supervisors, the FCRHA, the Advisory Committee and County staff. The Preservation Initiative, including the Penny Fund, continues to receive coverage in a wide variety of local and regional newspapers. At the end of FY 2008, the Advisory Committee published its annual report on the use of the Penny Fund on e-ffordable.org, and presented the report to the Board at its October 27, 2008 Housing Committee meeting.

- ***Guiding Principle 8:*** *The Fund should be used to finance permanent or long-term affordability; the minimum affordability period should correspond to the Fairfax County Affordable Dwelling Unit (ADU) Ordinance.*

  Progress/findings: The four units preserved at Northampton, which were purchased by the FCRHA, will have long-term affordability, as will the units under construction at Olley Glen.

Top Priorities

- ***Priority 1:*** *Preservation of existing affordable housing.*

  Progress/findings: A total of 152 units were preserved in FY 2009, of which four units were preserved using the Penny Fund and 148 were preserved using other funding sources. A total of 2,376 units were preserved through FY 2009 using all funding sources since the inception of the Preservation Initiative in April 2004.

- ***Priority 2:*** Workforce housing.

  Progress/findings: 2,308 of the 2,376 units preserved through FY 2009 are for working families and individuals.

  Also Noted: As of the end of FY 2009, a total of 931 Workforce Dwelling Units (WDUs) had been committed by developers via rezoning actions approved by the Board of Supervisors. It is anticipated that the first of these units could be delivered within 12 to 18 months, depending on market conditions.

  WDUs are provided in developments under the guidelines of the Board's Workforce Housing Policy, which was adopted in the fall of 2007 via amendments to the Comprehensive Plan and Zoning Ordinance. The amendment to the Comprehensive Plan created a proffer-based incentive system designed to encourage the voluntary development of new housing affordable to a range of moderate-income workers earning up to 120 percent of the Area Median Income (AMI) in Fairfax County's high-rise/high-density areas. The Plan now provides for a density bonus of up to one unit for every workforce unit provided by a developer, with the expectation that at least 12 percent of units in new developments be affordable or workforce housing. The amendment to the Zoning Ordinance accommodates any density bonus associated with the provision of workforce units through proffered rezoning applications. (See also Priority Six below.)

- ***Priority 3:*** Address condominium conversions.

  <u>Progress/findings:</u> The multifamily housing market in FY 2009 continued the previous year's trend characterized by very little transaction activity. The capital markets remain tight with scarce acquisition, development or construction financing available. The multi-family rental market, however, remains strong with increasing demand for rental units, creating a highly challenging condition for low and very-low income families.

- ***Priority 4:*** Reduce homelessness.

  <u>Progress/findings:</u> No FY 2009 Penny Fund resources were used on new projects specifically targeted to the needs of the homeless.

  Also Noted: The FCRHA continued to align its policy planning with the Fairfax County Plan to Prevent and End Homelessness in Ten Years.

  In its Strategic Plan – Action Plan for FY 2010 (adopted January 22, 2009), the FCRHA targeted specific steps to implement "Housing First". In FY 2010, the FCRHA plans to:

  - Complete the design phase of redevelopment of the Mondloch Shelter (Lee District) as Housing First/Residential Studio Units;
  - Give priority for Housing First for 55 additional Housing Choice Vouchers;
  - Acquire or finance the acquisition by non-profit partners of 40 units for Housing First; and
  - Subject to funding availability, initiate construction of six units of Housing First at the Hanley Family Shelter Campus *(Springfield District)*.

  Wedgewood: The permanent financing plan for Wedgewood, approved by the Board on July 13, 2009, provides for ten "Housing First" units at the property. "Housing First", which calls for rapid re-housing of the homeless, with supportive services provided once the individual or family is in a unit, is the central concept behind Fairfax County Plan to Prevent and End Homelessness in Ten Years.

  Fairfax County's non-profit partners continue to play a crucial role in Fairfax County's approach to addressing homelessness. In FY 2009, the FCRHA provided financing to the following non-profit acquisitions of Housing First units/beds:

  - *New Hope Housing; "Samaritan House", 8 beds; Mount Vernon District:* The FCRHA provided financing in the amount of $446,242 to New Hope Housing for the purchase of a house to be operated as permanent supportive housing for eight chronically homeless persons.
  - *New Hope Housing; 4 units; Mount Vernon and Lee Districts:* The FCRHA provided a loan of $325,404 from the Consolidated Community Funding Pool (CCFP) to New Hope Housing for the purchase of three condominiums and one

townhouse in FY 2009. These units are being used to provide long-term supportive housing for homeless individuals and families with disabilities.

- *Reston Interfaith; 1 unit; Dranesville District:* The FCRHA provided a loan of $144,358 in federal HOME Community Housing Development Organization (CHDO) funds to Reston Interfaith Housing Corporation for the purchase of a townhouse in the Herndon area. This unit is rented to households participating in Reston Interfaith's Housing Opportunities Strengthen Everyone (HOUSE) Transitional Housing Program.

In FY 2009, the FCRHA also continued a pilot policy that exempts all households applying for Public Housing, Housing Choice Vouchers and the Fairfax County Rental Program, earning 50 percent of the Area Median Income ($51,350 for a family of four) and below, from the rent burden requirement, with the exception of those already housed by the FCRHA. This effectively exempts most, if not all, homeless applicants from the rent burden requirement. It is anticipated that the FCRHA will adopt this policy on a permanent basis in FY 2010.

The Partnership for Permanent Housing (PPH) program continued in FY 2009. PPH has a goal of moving 25 homeless families into permanent housing. In FY 2009, 22 PPH households had leased affordable rental units with federal HOME-funded Tenant Based Rental Assistance (TBRA) vouchers, and two participating households had purchased homes. Five TBRA vouchers are also set aside for participants in the hypothermia prevention program, four of which were in use at the end of FY 2009.

- ***Priority 5:*** Affordable Housing close to work centers and transit.

Progress/findings: The units preserved and under construction using the Penny Fund in FY 2009 are located at or near major transit corridors. For example, the Olley Glen active senior development is in Fairfax off Little River Turnpike (Route 236), and is well-served by public transportation. Northampton, in the Franconia area of the Lee District, is located near the intersection of Franconia Road and South Van Dorn Street.

- ***Priority 6:*** Affordable Housing on surplus public land.

Progress/findings: No Penny Fund resources were expended on this priority in FY 2009.

Also Noted: The "Residences at the Government Center", a planned 270-unit affordable/workforce housing complex on the Fairfax County Government Center campus, continued to move forward in FY 2009. The project demonstrates the effective use of county-owned land to leverage private investment in affordable housing. On July 13, 2009, the Board of Supervisors moved to approve an assignment of the Contract to the Ground Lease from Jefferson Properties, Inc. to Jefferson Apartment Group. Once the contract's feasibility period ends, the plan preparation and design phase will commence. It is anticipated that final county plan approval could occur and construction begin by the fall of 2010 with project completion in 2012.

The "Residences at the Government Center" is a public–private joint partnership that will be developed under a ground lease, will be a high-quality, multifamily rental complex located adjacent to the seat of county government in the Springfield District.

The conceptual layout includes 270 units, in a 4-story configuration, with a hidden parking garage located in the middle of the residential buildings. The proposed unit mix includes 39 studios, 123 one-bedrooms, 93 two-bedrooms and 15 three-bedroom apartments. The project is situated in a wooded setting on an 8.5 acre portion of the County's 86-acre Fairfax County Government Center Campus and incorporating green building, low impact and sustainable design features, and will have amenities comparable to new market-rate multifamily projects. In addition to being connected to the Government Center by trail connections, the Residences at the Government Center will be close to transportation networks and the Fairfax County Connector bus system. The Residences at the Government Center will be developed, owned and managed by a private developer selected through the public/private partnership procurement process. The development will be marketed to county employees as well as other employees of area businesses, offering an attractive and affordable place to live near their jobs.

- ***Priority 7:*** Accessible and special needs housing.

  Progress/findings: Of the 2,376 units preserved since the inception of the Preservation Initiative through the end of FY 2009, 56 units are specifically for persons with disabilities and 12 units are for seniors. However, it should be noted that persons with disabilities and the elderly may live in any preserved unit for which they can meet the eligibility requirements.

  In addition, staff is evaluating ground level units at Wedgewood for their potential to be converted to serve persons with physical disabilities. And as part of the rehabilitation of the newly preserved Strawbridge Square Apartments in the Mason District, the new owner is committed to: 1) upgrading the existing six accessible units to meet federal Section 504 requirements; and 2) incorporating "Universal Design" elements into the property to the extent feasible.

  "Universal Design" is a concept incorporating design features to provide for the greatest ease-of-use of buildings for the widest range of physical/sensory abilities. The inclusion of Universal Design at Strawbridge Square was a direct result of the Board of Supervisors' FY 2008 action to amend the guidelines for the Affordable Housing Partnership Program (AHPP) to incorporate a policy supporting universal and accessible design (Action – 2; December 3, 2007). The AHPP is the gateway through which affordable housing developers – including the developer of Strawbridge Square – apply for affordable housing preservation and construction funds, including the Penny Fund and the Housing Trust Fund.

  Also Noted: In FY 2009, HCD staff assisted the Director of the Office to Prevent and End Homelessness in initiating a study of the housing needs of extremely low-income persons (those earning 30 percent of the Area Median Income (AMI) or less) with disabilities. As of the end of FY 2009, this process was ongoing; it is anticipated that a Request for Proposals (RFP) for consultant services will be issued in FY 2010.

Also in FY 2009, the FCRHA completed the rehabilitation of Minerva Fisher Hall, a twelve-bed group home in the Providence District serving adults with intellectual disabilities. This work included the installation of new mechanical systems, floor coverings, replacement of the roof, counters and appliances, as well as landscaping and sealing of the parking lot.

- ***Priority 8:*** Affordable housing and affordable assisted living for seniors.

  <u>*Progress/findings:*</u> A total of $6.3 million from the FY 2009 Penny Fund allocation was expended on the 90-unit Olley Glen active senior development. (Please see the response to Guiding Principle 5 above.)

  Also noted: In addition to Olley Glen, HCD staff continued to evaluate options for the renovation/replacement of two FCRHA-owned senior housing properties – Lewinsville and Lincolnia:

  - *Lewinsville; Dranesville District:* During FY 2009, HCD staff worked in partnership with the office of the district supervisor to consider potential future development options within the context of current funding constraints. It is anticipated that a revised development concept for the facility will be developed by the end of FY 2010, which will include an expansion of existing senior services.
  - *Lincolnia; Mason District:* As of the end of FY 2009, HCD staff was in the process of evaluating options for upgrading the mechanical system of the property, which includes 52 beds of assisted living and 26 units of independent living.

- ***Priority 9:*** Safe housing.

  <u>*Progress/findings:*</u> No resources from the Penny Fund were expended in FY 2009. The county's Code Enforcement Strike Team continued to seek code compliance from landlords, with the goal of ensuring safe housing for tenants and eliminating overcrowding.

- ***Priority 10:*** Replacement and preservation of affordable housing in areas undergoing redevelopment and revitalization.

  <u>*Progress/findings:*</u> As stated earlier, the majority of the FY 2009 Penny Fund allocation was either expended to pay debt service on the Wedgewood and Crescent properties, or reserved for the permanent financing of Wedgewood in FY 2010. The Wedgewood Apartments are located at the gateway to the Annandale revitalization area *(Braddock District)* and the Crescent is immediately adjacent to the Lake Anne revitalization area *(Hunter Mill District)*.

FY 2010 Outlook: As stated earlier, the special subcommittee notes that the Board reduced the Penny Fund by 50 percent for FY 2010. It is the opinion of the special subcommittee that this action will significantly hamper the county's ability to address its current and future needs for affordable housing. The special subcommittee understands that this difficult decision was a reflection of the unprecedented challenges faced by the Board during the ongoing economic recession; however, it urges that full funding be restored in FY 2011.

The special subcommittee further reaffirms the Advisory Committee's recommendations to the Board's Housing Committee on June 15, 2009 concerning the future use of the Penny Fund (Attachment 2).

ATTACHMENT 1

"One Penny for Housing" Flexibility Fund (Fund 319)
Overriding and Guiding Principles

Endorsed by the Board of Supervisors on November 21, 2005

Overriding Principles

- **Preservation of existing affordable housing is the highest priority.**
- **The Fund will be fully spent or specifically obligated with the fiscal year in which it is appropriated.**
- **The Fund will be opportunity-driven.**

Guiding Principles

In addition to the overriding principles, the following principles will guide the use of the Fund:

- The Fund will be leveraged at least 3:1.
- Projects can be expected to range in affordability. Projects serving a lower income may be eligible for an above-average subsidy, while those serving a higher income eligible for a lower subsidy. The affordability range will be set by the Advisory Committee.
- All projects are expected to be feasible, sustainable, affordable, completed in a timely manner, and meet threshold standards set by the Department of Housing and Community Development.
- Allocations from the Fund will be spent on capital expenditures.
- Under appropriate circumstances, the Fund may be used for new housing production.
- Loans, deferred loans, grants and other financing approaches will be used.
- The activity, status and success of the Fund will be well communicated to the Board of Supervisors and the community.
- The Fund should be used to finance permanent or long-term affordability; the minimum affordability period should correspond to the Fairfax County Affordable Dwelling Unit (ADU) Ordinance

Top Priorities

- Preservation of existing affordable housing
- Workforce housing
- Address condominium conversions
- Reduce homelessness
- Affordable Housing close to work centers and transit
- Affordable Housing on surplus public land
- Accessible and special needs housing
- Affordable housing and affordable assisted living for seniors
- Safe housing
- Replacement and preservation of affordable housing in areas undergoing redevelopment and revitalization.

ATTACHMENT 2

The "Penny for Affordable Housing" Fund:
Purpose; Overriding and Guiding Principles
Affordable Housing Advisory Committee Proposed Revisions: May 29, 2009

Purpose: **To produce and preserve sustainable affordable housing in Fairfax County.**

Overriding Principles:

- The Penny for Affordable Housing Fund will be used on capital expenditures for the production and preservation of enduring physical affordable housing assets.
- The Fund will be flexible and driven by local priorities to be recommended by the Affordable Housing Advisory Committee and approved by the Board of Supervisors on an annual basis.
- The Fund will focus on providing affordable housing for persons experiencing homelessness, extremely low income persons with disabilities and special needs, seniors and working households.

Guiding Principles: In addition to the overriding principles, the following principles will guide the use of the Fund:

- *Incomes served:* The Fund shall serve persons with low incomes of 80 percent of the Area Median Income (AMI) and below. Projects serving the lower end of the income range may be eligible for an above-average subsidy, while those serving the higher end of the income range will be eligible for a lower subsidy.
- *Allowable uses:* The Fund may be used for new housing production and the preservation of existing affordable housing, including rehabilitation.
- *Expenditures:* The Fund will be fully spent or specifically obligated with the fiscal year in which it is appropriated.
- *Leveraging:* Leveraging non-county funds will continue to be an important goal of the Fund. Levels of leveraging will vary based on the incomes of persons being served.
- *Project feasibility:* All projects are expected to be feasible, sustainable, affordable, completed in a timely manner, and meet threshold standards set by the Department of Housing and Community Development.
- *Rental subsidies:* Non-county funds for rental subsidies are critically important to serving extremely low-income households.
- *Financing tools:* Loans, deferred loans, grants and other financing approaches will be used.
- *Transparency:* The activity, status and success of the Fund shall be well communicated to the Board of Supervisors and the community.
- *Affordability:* The minimum affordability period for projects financed with the Fund shall correspond to the Fairfax County Affordable Dwelling Unit (ADU) Ordinance.

Current Priorities

- Preventing and ending homelessness by providing safe and affordable housing
- Accessible and special needs housing
- Affordable housing close to work centers and transit
- Providing a range of affordable housing for seniors
- Preservation of existing affordable housing
- Workforce housing
- Affordable housing on surplus public land

Fairfax County Affordable Housing Advisory Committee

Proposed Revisions to the "Guiding and Overriding Principles and Priorities" for the Penny for Affordable Housing Fund and Other Associated Recommendations

May 29, 2009

Overview: The Affordable Housing Advisory Committee believes that Fairfax County's approach to affordable housing is now at an important crossroads. With an estimated 63,660 *net new* affordable housing units needed by 2025[1] and more than 12,000 households on waiting lists maintained by the Fairfax County Redevelopment and Housing Authority (FCRHA)[2], the Penny for Affordable Housing Fund is – *now, more than ever* – essential to meeting the county's current and future need for affordable housing. The Penny Fund is so valuable because of its flexibility to meet a variety of housing needs, especially when compared to federal and other non-local affordable housing resources. This document constitutes the Advisory Committee's recommendations to the Board of Supervisors for taking advantage of that flexibility, in the form of proposed changes to the Fund's Board-adopted guiding and overriding principles.

Background: On November 21, 2005, the Board of Supervisors adopted a set of guiding and overriding principles and priorities for the use of the Penny for Affordable Housing Fund (Consideration – 2). While the principles and priorities adopted by the Board provided for significant flexibility in the use of the Fund, the top priority was clearly the preservation of existing rental housing.

The Penny Fund has been a clear success: Since the beginning of the Board's Affordable Housing Preservation Initiative in April 2004, a total of 2,241 units have been preserved by the county and its private non-profit and for-profit partners, including 1,809 units preserved in transactions involving the Penny Fund. Without the Penny Fund, the 9,300 affordable rental units lost between 2002 and 2008[3] would have been closer to 11,500. The Board's proactive investment in preserving affordable rental housing prevented residents of the preserved units from facing potential displacement, and kept them off of the already lengthy waiting lists for Fairfax County's housing programs. Over time, the Board has also taken advantage of the flexibility of the Penny Fund to address emerging issues and opportunities, including funding for first-time homebuyers to purchase foreclosed homes, and the construction of the Olley Glen independent senior living development (Braddock District).

[1] "*Linking Job Growth and Housing: Forecasts of the Demand for Workforce Housing in Fairfax County";* George Mason University, Center for Regional Analysis, June 2008.
[2] As of May 6, 2009; source: Fairfax County Department of Housing and Community Development.
[3] Source: Fairfax County Department of Housing and Community Development

Going into the Fiscal Year 2010 budget cycle, the Board faced unprecedented challenges due to the ongoing economic crisis. While the Board ultimately decided to reduce the Penny Fund by half in FY 2010, it also signaled that this action did not constitute a retreat from affordable housing as a priority. The Board has agreed to consider the future of the Penny Fund at its retreat planned for late June. The Advisory Committee recognizes this as a critical juncture for the Penny Fund and the county's approach to ensuring an adequate supply of affordable housing.

Proposed Amendments: The following is a description of the substantive amendments proposed to the Board-adopted guiding and overriding principles for the Penny for Affordable Housing Fund:

Amendment 1: *Add the following statement of purpose for the Penny Fund:* "To produce and preserve sustainable affordable housing in Fairfax County."

Discussion: The Advisory Committee recognizes, from the discussion leading up to the adoption of the FY 2010 budget, that there is a diversity of understanding on the Board in terms of the purpose of the Penny Fund. The proposed statement is intended to clarify and reaffirm the purpose of the Fund, while at the same time emphasize its flexibility.

Other issues for consideration include:

- Fairfax County is a leader in affordable housing; however, it is not alone in taking advantage of the flexibility provided by dedicating local revenue to the production and preservation of affordable housing. Approximately 600 states and local jurisdictions have established housing funds with local resources[4], including Montgomery County, Maryland and Arlington County, Virginia:
    - *Montgomery County:* The Housing Initiative Fund (HIF), created in 1988, is used to "make loans to the Montgomery County Housing Opportunities Commission (HOC), non profit organizations, and for profit owners to acquire, build, or renovate affordable housing units." The primary funding sources for the HIF are loan repayments and Montgomery County's general fund. FY 2002 funding level: $14,844,648.[5]
    - *Arlington County:* The Arlington County Affordable Housing Investment Fund is used to provide financing for development of affordable housing; prevent displacement of low and moderate income residents; and prevent the loss of affordable multifamily housing. The Fund receives $5.7 million in new funding annually plus loan repayments and payoffs.[6]
- There was considerable discussion among Board members that the affordable housing-related funds the county is receiving under the American Recovery and

[4] Source: *"Housing Trust Fund Progress Report 2007"*; Center for Community Change, no date reported.
[5] Source: *"Montgomery County's Housing Initiative Fund: Promoting Safe and Affordable Neighborhoods"; FY* Montgomery County Department of Housing and Community Affairs, FY 2002.
[6] Source: Arlington County Department of Community Planning, Housing and Development

Reinvestment Act of 2009 (ARRA) will substantially fill the gap left by the reduction to the Penny Fund in FY 2010; however, the vast majority of those funds are programmed for very specific purposes. The following chart describes the federally-mandated purpose of the direct affordable housing-related allocations Fairfax County will receive from HUD under ARRA:

Source	Federally-mandated Purpose	Amount
Capital Fund Program (direct allocation to the FCRHA)	Modernization and renovation of the FCRHA's 1,063 units of federal Public Housing.	$2,294,177
Community Development Block Grant (CDBG)	CDBG-eligible activities, which can include the renovation of FCRHA properties and the rehabilitation of affordable rental units by eligible non-profit organizations, which are shovel-ready and committed/completed in a very short timeframe.	$1,610,504
Homelessness Prevention and Rapid Re-housing Program (HPRP)	Homelessness prevention activities such as rental assistance, and housing relocation and stabilization services.	$2,462,398
Total		**$6,367,079**

While these funds provide an important, one-time affordable housing resource, they simply do not give the Board the flexibility to address emerging local priorities.

Amendment 2: *Add the following Overriding Principle:* "The Penny for Affordable Housing Fund will be spent on capital expenditures for the production and preservation of enduring physical affordable housing assets."

Discussion: There has been some discussion of the possibility of using the Penny Fund for purposes other than capital expenditures. The Penny Fund was originally conceived as a capital fund, with the intent of creating and preserving enduring physical affordable housing assets. The use of the Penny Fund for a rent subsidy, for example, has been evaluated by the Advisory Committee in the past and found to have two principal drawbacks:

- *Temporary benefit versus permanent asset.* A rental subsidy would provide only a temporary benefit, as opposed to an enduring physical asset for affordable housing. In addition, the cost of a rental subsidy will increase annually with inflation and rent increases. The purchase, construction or financing of a physical asset is the surest way to control costs, ensure long-term affordability and serve a far greater number of individuals over the long term. In addition, the asset will increase in value; that equity could be used either for that property or for other affordable housing purposes. The Penny Fund has been used by both the county and its non-profit and for-profit partners to finance long-term affordable housing projects: Of the 1,809 units preserved in transactions involving the Penny Fund to date, a total of 908 units (over 50 percent) were preserved by Fairfax County's private sector partners.

- *Requirement for an ongoing subsidy.* A rental subsidy would necessitate both an annual allocation by the Board and the creation of an administrative framework to monitor and evaluate the effectiveness of the program.

<u>Amendment 3:</u> *Add the following Overriding Principle:* "The Fund will be flexible and driven by local priorities to be recommended by the Affordable Housing Advisory Committee and approved by the Board of Supervisors on an annual basis."

<u>Discussion:</u> The Advisory Committee was appointed by the Board in 2005 to "make recommendations to the County Executive and the Board of Supervisors regarding … goals and priorities for the use of the [Penny] Fund … [and] monitor the effectiveness of the Fund … and suggest course corrections"[7]. In that spirit, the Committee seeks to assist the Board in identifying and updating annually the priorities for the use of the Fund based on the county's evolving affordable housing needs. The Advisory Committee has proposed a set of "current priorities", based on in-depth discussion of the challenges and opportunities that have emerged since the inception of the Fund in FY 2006, to be included in the new guiding and overriding principles for the Fund.

<u>Amendment 4:</u> *Add the following Overriding Principle:* "The Fund will focus on providing affordable housing for persons experiencing homelessness, extremely low income persons with disabilities and special needs, seniors and working households."

<u>Discussion:</u> The Advisory Committee recognizes the critical importance of serving the most disadvantaged in the county, while at the same time producing the supply of affordable workforce housing necessary to ensure the county's economic vitality. The Advisory Committee is committed to using the Penny Fund for capital expenditures in projects that will contribute to implementing "Housing First" and achieving the goals of the Implementation Plan to Prevent and End Homelessness in the Fairfax-Falls Church Community. The Advisory Committee also notes that there are 1,306 extremely low-income "disabled households" on the FCRHA-managed waiting lists for Fairfax County's affordable housing programs.[8]

The Advisory Committee believes, however, that capital investment in affordable housing for special needs populations is only part of the equation. Once persons with disabilities or who are experiencing homelessness are in housing, the availability and consistency of supportive services is essential to their continued self-sufficiency. The Advisory Committee urges the Board to continue to provide the supportive service

[7] Board Agenda Item, Action – 2; May 23, 2005.
[8] As of May 6, 2009; source: Fairfax County Department of Housing and Community Development. "Disabled Household" means a household with one or more members claiming a disability.

resources necessary to the successful implementation of Housing First *from non-capital sources*.

<u>Amendment 5:</u> *Amend the Guiding Principle concerning subsidy levels to read as follows:* "*Incomes served:* The Fund shall serve persons with low incomes of 80 percent of the Area Median Income (AMI) and below[9]. Projects serving the lower end of the income range may be eligible for an above-average subsidy, while those serving the higher end of the income range will be eligible for a lower subsidy."

<u>Discussion:</u> The Advisory Committee noted a significant amount of confusion about the income levels served by Fairfax County's affordable housing programs. The Advisory Committee recommends adding the limit of 80 percent of AMI – defined by the United States Department of Housing and Urban Development (HUD) as the upper limit of "low and moderate income" – in order to clarify its long-standing income policy for the Fund. Beginning teachers, firefighters and police assisted by the county's housing programs generally have incomes at 70 to 80 percent of AMI.

It should be noted that the average income served in the FCRHA's affordable rental housing programs – Housing Choice Voucher, Public Housing, and the Fairfax County Rental Program (FCRP) – is approximately $26,462, or 29.7 percent of the AMI for a family of three.[10] This meets the HUD definition of <u>extremely low income</u>. Units purchased by Fairfax County or the FCRHA with the Penny Fund are part of the FCRP. Of the 2,241 units preserved under the Board's preservation initiative to date, a total of 1,696 – or 75 percent – are affordable to households earning 60 percent of the AMI, including 635 units affordable at 50 percent of AMI and below.

<u>Amendment 6:</u> *Amend the Guiding Principle concerning the use of the Penny fund for new construction to read as follows:* "The Fund may be used for new housing production and the preservation of existing affordable housing, including rehabilitation.

<u>Discussion:</u> Affordable housing matters to Fairfax County's economic recovery. According to the George Mason University Center for Regional Analysis, Fairfax County's continued economic vitality is inextricably tied to its response to the need for affordable workforce housing; the county's growth is highly dependent on the availability of affordable workforce housing. Fairfax County is expected to need more than 63,000 <u>net additional units</u> of housing affordable to a range of incomes up to 120 percent of AMI by 2025.[11]

---

[9] Note: Units may be provided in mixed-income communities.
[10] *"Facts about Fairfax County's 'Penny for Affordable Housing Fund' and Affordable Housing Programs"*; Fairfax County Department of Housing and Community Development, April 7, 2009
[11] "*Linking Job Growth and Housing: Forecasts of the Demand for Workforce Housing in Fairfax County";* George Mason University, Center for Regional Analysis, June 2008.

The importance of investing in new affordable housing production will only grow over time. An October 2008 staff report on affordable workforce housing in Fairfax County estimated that the 1,877 new Workforce Dwelling Units, Affordable Dwelling Units and Magnet Housing Units in the development pipeline constituted only 2.9 percent of the 63,660 new units needed by 2025.[12] The flexibility inherent in the Penny Fund and reinforced by the proposed amendments to the Fund's principles allows the Board to make critical investments in new housing production, either by the county itself or leveraging the power of the private sector.

The Advisory Committee also felt that the definition of affordable housing "preservation" needed to be expanded. The Advisory Committee believes that existing owners of affordable multifamily rental properties could be persuaded to retain their properties as affordable if they had access to affordable rehabilitation financing. The Advisory Committee recommends that the rehabilitation of existing affordable multifamily housing, in exchange for a commitment to continued affordability, would be an appropriate use of the Penny Fund. A positive byproduct of investing Penny Fund resources in rehabilitation is its potential for job creation and retention.

<u>Amendment 7:</u> *Amend the Guiding Principle concerning leveraging to read as follows:* "Leveraging non-county funds will continue to be an important goal of the Fund. Levels of leveraging will vary based on the incomes of persons being served."

<u>Discussion:</u> The amendment of this Guiding Principle – which formerly mandated a leveraging ratio of $3 in non-county dollars for very county dollar expended – does not represent a retreat from the Advisory Committee's commitment to leveraging non-county resources with the Penny Fund. Rather, it is recognition that the enhanced focus on serving households with extremely low incomes will require levels of subsidy which may make a 3:1 leverage ratio infeasible in certain projects.

The Advisory Committee will continue to track and report the leveraging rate on an annual basis. It should be noted that, over the first three fiscal years of the Penny Fund (FY 2006 through FY 2008), the average leveraging rate was $3.84 in non-county funds for every dollar invested from the Penny Fund.[13]

<u>Amendment 8:</u> *Revise and re-state the top priorities for the Penny Fund as "Current Priorities"; and remove the reference to revitalization areas; with the priorities now reading as follows:*

- Preventing and ending homelessness by providing safe and affordable housing
- Accessible and special needs housing

[12] *"Encouraging Private Sector Workforce Housing"*; Fairfax County Department of Housing and Community Development, October 27, 2008.
[13] Source: FY 2006, FY 2007 and FY 2008 annual progress reports; Fairfax County Affordable Housing Advisory Committee

- Affordable housing close to work centers and transit
- Providing a range of affordable housing for seniors
- Preservation of existing affordable housing
- Workforce housing
- Affordable housing on surplus public land

<u>Discussion:</u> The revision of the priorities for the Penny Fund reflects how the many housing-related issues facing Fairfax County have evolved since the Guiding and Overriding Principles were adopted by the Board in late 2005. For example, the county's housing and human services structures are now implementing Housing First and the Plan to Prevent and End Homelessness. The housing market has dramatically changed, with foreclosures becoming a serious problem for troubled homeowners but also an opportunity for potential first-time homebuyers. The Metrorail Silver Line to Dulles International Airport and the long-anticipated transformation of Tysons Corner into a true urban center are now an impending reality. Both now and in the future, the flexibility of the Penny Fund will allow the Board to invest in the priorities it deems to be the most pressing, unfettered by priorities imposed by funding sources like the federal government.

As stated earlier, the Advisory Committee proposes to recommend updates to the priorities for the Penny Fund – based on emerging local priorities – for Board consideration on an annual basis

<u>Recommendation Concerning Allocation of the Penny Fund:</u> *The Advisory Committee believes that the existing model for allocating the Penny Fund is flexible and responsive, has been a consistent success, <u>and should be retained</u>*. Under the current model, the FCRHA and other non-profit and for-profit affordable housing developers access the Penny Fund and Fairfax County's other affordable housing development resources in response to opportunities emerging in the market. For-profit and non-profit developers access the county's affordable housing development funds via the FCRHA's long-standing Affordable Housing Partnership Program (AHPP), which acts as the "gateway" to the Penny Fund, as well as the Housing Trust Fund, and federal CDBG and HOME Investment Partnership funds.

Non-profit and for-profit applicants to the AHPP are expected to have site control and the support of the district supervisor for a project. Staff from the Department of Housing and Community Development (HCD) evaluates each application for initial eligibility, including whether the project meets Board-adopted priorities. Staff then underwrites the proposed transaction for feasibility and sustainability, and makes a recommendation to the HCD Loan Underwriting Committee. If the project is approved at the staff loan committee level, it then goes for approval, first to the FCRHA, and then to the Board.

This process has a proven track record over the last nearly four years of helping non-profit and for-profit developers preserve affordable housing in large numbers. Since the inception of the Board's Affordable Housing Preservation Initiative in April 2004, a total of 2,241 units have been preserved to date, of which 1,281 units – or 57 percent – have been preserved by non-profit or for-profit organizations using all funding sources. Of these 1,281 non-profit and for-profit units, 908 were preserved via the AHPP process using the Penny Fund.

The Advisory Committee acknowledges the discussion concerning the possible distribution of Penny Fund resources through a structure similar to the Consolidate Community Funding Pool (CCFP). However, the Committee does not recommend this model for the Penny Fund. A CCFP model would simply not be able to respond with the speed and flexibility demanded by large-scale preservation and production opportunities emerging in the market. The CCFP is a bi-annual, single deadline application process which focuses mainly on non-capital services to eligible populations. (There is a set-aside within the CCFP for affordable housing capital, which generally is used by non-profits for single unit acquisitions that are neither time-sensitive nor competitive. The FY 2010 value of this set-aside is anticipated to be $1,113,445.)

Other Critical Recommendations:

- *Alignment with the Implementation Plan to Prevent and End Homelessness:* The Advisory Committee recommends that the county continue to work to align its approach to affordable housing with the homelessness plan. The Committee notes that the FCRHA's Strategic Plan – Action Plan for FY 2010 has been aligned with the homelessness plan. The Advisory Committee also notes that the FCRHA has made significant strides toward meeting the metrics set forth by the Implementation Plan for FY 2009: As of March 2009, the FCRHA is providing 30 HOME-funded Tenant-Based Rental Assistance (TBRA) vouchers and 74 federal Housing Choice Vouchers for "Housing First", and has funded the acquisition of 9 non-profit units (including 8 beds in a group home) for individuals and families experiencing homelessness.

- *Expansion of the Workforce Housing Policy:* In the fall of 2007, the Board of Supervisors created Fairfax County's groundbreaking new Workforce Housing Policy via amendments to the Comprehensive Plan and Zoning Ordinance. The amendment to the Comprehensive Plan created a proffer-based incentive system designed to encourage the voluntary development of new housing affordable to households earning between 80 and 120 percent of the AMI. In exchange, developers may receive bonus density potential equivalent to up to one unit for every workforce unit provided. However, the original recommendation of the Board-appointed High-Rise Affordability Panel, on whose work the Workforce Housing Policy was based, provided for an income tier at 60 percent of AMI as well. This tier was eliminated from the Panel's final recommendations to the Board as it might have necessitated a higher level of density bonus. **The Advisory Committee recommends that the Board re-visit this aspect of the Panel's recommendations to determine options for the market to provide additional units for lower income households.**

- *Affordable Housing in Commercial and Industrial Districts:* The Advisory Committee has previously recommended that the Board explore another important recommendation of the High-Rise Panel that has not yet been addressed: that affordable and workforce housing be designated as a Permitted Use in Commercial, Industrial, and Mixed-Use Districts. The Panel, in its final recommendations to the Board recommended the following: "Through a mechanism such as the Special Exception process or the development of a by-right prototype, Affordable and Workforce Housing should be permitted in commercial, industrial, and mixed-use districts, under certain conditions and restrictions. In addition, employers with campus-type facilities in commercial and industrial districts should be allowed to use a portion of their land to provide Affordable/Workforce Housing for their employees. In either case, the Panel recommends that the affordable/workforce component of any residential development permitted in commercial or industrial districts should not count against the planned density or intensity of the property, within reasonable limits." The High-Rise Panel, during its deliberations, reached a consensus that this recommendation was likely to produce the most significant numbers of affordable workforce housing over the long term.

- *Expanded Application of the Merrifield Area Plan Language Concerning Affordable Dwelling Units (ADU):* The Advisory Committee reaffirms its recommendations to the Planning Commission and the Board that the Comprehensive Plan be amended to ensure that new rezoning actions in revitalization and similar areas include both Workforce Housing <u>and</u> Affordable Dwelling Units (ADUs), similar to the policy previously approved for Merrifield. The Board's Workforce Housing Policy includes the expectation that at least 12 percent of the units produced in new developments in the County's mixed-use development areas be affordable/workforce housing. In the view of the Affordable Housing Advisory Committee, the Comprehensive Plan should now be amended to ensure that, as in Merrifield, future approvals in similar areas result in at least 5 percent ADUs and 7 percent workforce housing. Without such policy, it is unlikely that significant numbers of ADUs will be provided in other high-density areas of Fairfax County.

- *Zoning Ordinance Amendment Concerning Residential Studio Units (RSU):* The Advisory Committee is aware that the Department of Planning and Zoning (DPZ) been developing an amendment to the Zoning Ordinance which would better enable the development of the RSU/SRO housing model in Fairfax County; however, the amendment has not yet been advertised. As the Board is aware, the Fairfax County SRO (Single Room Occupancy) Task Force recommended this type of housing as an "opportunity to provide residential stability to individuals who otherwise would be unlikely to achieve that goal", including persons with low incomes and disabilities, and persons experiencing homelessness.[14] The SRO Task Force also recommended RSU housing as important to the implementation of the Housing First model.[15] The Advisory Committee recommends that the Board direct DPZ to bring

[14] *"An Affordable Housing Solution for Low Income Single Residents: Single Resident Occupancy (SRO) Housing in Fairfax County, Virginia"*; Fairfax County SRO Task Force, July 2005.
[15] Ibid.

the Zoning Ordinance amendment forward for advertisement for public hearing at the earliest possible date.

- *Dedicated Affordable Housing Funding Source:* As was discovered in FY 2010, the one weakness of the Penny Fund is that it is subject to annual appropriations. The Affordable Housing Advisory Committee recommends that the Board explore identifying a dedicated funding source for affordable housing capital – potentially such as the automobile decal fee or a portion of the recordation tax – in a manner similar to other jurisdictions with high housing costs, like the District of Columbia. The District's Housing Production Trust Fund has a dedicated stream of funding from the 15 percent real estate transfer tax; in 2005, this translated to about $50 million.[16]

- *Additional Federal Housing Choice Vouchers:* The Advisory Committee strongly recommends that the Board take the necessary steps to increase the county's allocation of federal Housing Choice Vouchers and the associated HUD budget authority. The county currently is authorized by HUD to lease up to 3,204 vouchers, within the allotted budget authority. The Housing Choice Voucher program is a critical housing resource the county's most disadvantaged households. The program:

    - Serves the lowest average income of the FCRHA's rental housing/tenant subsidy programs. The average income served in FY 2008 was $18,951, of 21 percent of AMI for a family of three.[17] And
    - Has the highest percentage of "disabled households" served; as of May 2008, 36 percent of all households served in the Housing Choice Voucher program had one or more people with disabilities.[18]

  The Housing Choice Voucher program is currently 100 percent leased-up, and the waiting list is closed except to those on homeless waiting lists maintained by the Department of Family Services and referred to HCD. As stated earlier, there are currently 1,306 extremely low-income "disabled households" on the FCRHA-maintained waiting lists for affordable housing. Increasing the number of vouchers and the budget authority would immediately increase Fairfax County's capacity to meet the housing needs of these most vulnerable citizens.

- *Local Tax Credit for Private Real Estate Developers:* The Advisory Committee recognizes that the private development community will, by necessity, play the central role on producing the number of affordable units the county needs to remain economically healthy. In addition to the density incentives already provided for in Board policy, the Advisory Committee recommends that the Board explore a local tax credit for private developers providing affordable housing.

---

[16] Bendix Anderson, "DC Harnesses the boom"; *Affordable Housing Finance*, June 2005.
[17] Source: *Report on Fairfax County Affordable Housing Programs and Funding Sources in FY 2008;* Fairfax County Department of Housing and Community Development, March 3, 2009.
[18] Ibid.

- *Real Estate Tax Exemption for Non-Profit Affordable Housing Providers:* The Advisory Committee recommends that the Board consider lifting the moratorium on real estate tax exemptions for non-profit affordable housing providers.

- *Commercial Development Linkage:* The Advisory Committee notes that other jurisdictions, such as Marin County, California, require contributions from non-residential land uses for the purpose of workforce housing. The Advisory Committee recommends that the Board explore the linkage between non-residential development and the need for affordable workforce housing and develop a policy to foster a synergy between the two.

- *Affordable Housing on Public Land:* The Advisory Committee recognizes the planned development of the Residences at the Government Center as a significant step in using public land as an investment in affordable workforce housing. The Committee recommends that the Board continue to seek similar opportunities to leverage the capacity of the private development community with public land.